

ECONOMIC RECOVERY BONDS

IMMEDIATE STEPS TO MOVE FORWARD ON THE SALE OF THE BONDS

1. Establish the Economic Recovery Bond (ERB) working group, with representatives of the State Treasurer's Office, Department of Finance, State Controller's Office and the Attorney General's Office

- Meeting this afternoon (March 3, 2004) with senior representatives from the State Treasurer's Office, the Department of Finance, the State Controller's Office, and the Attorney General's Office
- Topics include:
 - State's cash flow situation, the amount of financing proceeds needed to satisfy the June 2004 obligations, and the size of the initial bond sale
 - Interim financing if needed
 - Potential challenges and risks to the timely implementation of bonds
- Working group meetings will continue on a regular basis

2. Utilize work already undertaken by the State Treasurer's Office on the Fiscal Recovery Bonds (FRB) to facilitate ERB implementation

- Significant progress on the FRBs can be transferred to the ERBs. For example:
 - Basic legal documents prepared for the FRBs can serve as solid starting place for ERBs
 - Rating agencies already have been exposed to performance of state sales tax revenues

3. Negotiate for bond insurance and credit support to obtain lowest possible borrowing costs

- Financial institutions will be approached for bond insurance and credit support to diversify the types of bonds to be offered
- As this can be time consuming, work will begin immediately with initial briefings next week (Week of March 8)

4. Appoint financing team

- Announcement of financing team expected by close of business on Thursday, March 4, 2004

ESTIMATED TIMELINE FOR BRINGING THE ECONOMIC RECOVERY BONDS TO MARKET¹

March
<ul style="list-style-type: none"> • State Treasurer's Office, in coordination with Department of Finance and State Controller's Office, to commence working on bond sale, including assessing cash flows and determining estimated size of initial bond sale • Assemble financing team (underwriters, bond counsel and financial advisors) • Meet with rating agencies, bond insurers and credit providers • Determine impact on other bond sales, such as planned General Obligation and State Public Works Board bond sales
April
<ul style="list-style-type: none"> • The Economic Recovery Financing Committee meets to authorize the issuance of the bonds (April 19-23) • Final meetings with the rating agencies
May
<ul style="list-style-type: none"> • Mail the Preliminary Official Statement approximately one week after the release of the May Revision • Obtain ratings • Obtain commitments from bond insurers and credit providers • Market the bonds; meet with potential investors
June
<ul style="list-style-type: none"> • Price and close the transaction (receive bond proceeds) • The \$10.965 billion 2003 Revenue Anticipation Warrants mature on June 16, 2004 • The \$3 billion 2003 Revenue Anticipation Notes mature on June 23, 2004

¹ The estimated timeline is subject to a number of factors including, but not limited to, potential legal challenges, receipt of credit ratings, and market conditions.

ECONOMIC RECOVERY BONDS

FACTORS THAT COULD IMPACT TIMING AND STRUCTURE OF THE BONDS

1. Litigation Risks

- Any litigation that challenges the validity of the bonds, the sales tax revenues, or the election would be of significant concern
- Litigation against sales tax revenue stream alone might not bar issuance (due to full faith and credit pledge “backstopping” pledged sales tax revenues), but could create significant challenges to creditworthiness, market capacity, and expedited issuance of bonds

2. Budget Progress

- Credible May Revision and meaningful progress toward structural balance could reduce interest rates and overall costs of the bonds
- Conversely, lack of budget progress could impact cost-effectiveness, especially if sales tax revenues face challenge, forcing reliance on General Fund

3. Market Capacity

- \$15 billion Economic Recovery Bonds (ERBs) eclipse largest municipal bond transactions ever sold
 - California Department of Water Resources’ \$11.3 billion Power Supply Revenue Bonds is the largest issuance to date (October-November 2002)
- Highest par amount of California General Obligation (GO) bonds issued in a single fiscal year is approximately \$6.8 billion (FY 2002-03, new money and refunding)

- Even with a dedicated revenue stream that distinguishes ERBs from other state GO bonds, issuance of a significant portion of \$15 billion total in near term will test market capacity
- Efforts will be made to diversify structure of transaction to avoid size penalties